



The Elm — Marc-Aurèle Fortin — The René Buisson Collection

NORTHERN TELEPHONE LIMITED

68th ANNUAL REPORT 1972



TRANSFER AGENT

CROWN TRUST COMPANY,
Toronto, Montreal, Winnipeg and Calgary

TRUSTEE

CANADA PERMANENT TRUST COMPANY,
Toronto and Montreal

AUDITORS

ROSS, POPE & COMPANY
Chartered Accountants,
Timmins, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE,
New Liskeard, Ontario

SIXTY-EIGHTH

ANNUAL REPORT

NORTHERN TELEPHONE LIMITED

Year Ended December 31, 1972



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Transfer Agent, Trustee, Auditors and Bankers *Inside Front Cover*

*Vous pouvez obtenir une version
française de ce rapport en écrivant
au Secrétaire,*

*Téléphone du Nord Limitée
New Liskeard, Ontario*

Highlights of the Report

FINANCIAL RESULTS

	1972	1971
Total Operating Revenues	\$15,407,066	\$13,181,905
Operating and General Expenses.....	6,243,527	5,429,472
Debenture Interest and Discount	844,115	868,091
Depreciation	3,111,481	2,824,414
Income Taxes	2,097,080	1,651,575
Net Income	2,058,003	1,406,878
Dividends - Preference	409,217	409,217
Dividends - Common	811,643	710,187
Earnings per average common share.....	.63	.42

BALANCE SHEET

Gross Fixed Assets	\$66,900,403	\$60,871,132
Net Fixed Assets	44,473,290	41,100,498
Accumulated Depreciation	22,427,113	19,770,634
Long Term Debt	13,953,000	14,176,500
Shareholders' Equity	26,479,672	21,415,229

ADDITIONAL STATISTICS

Telephones in service	109,654	102,722
Percent dial operated	98.9	98.2
Number long distance calls	6,787,577	5,874,242
Number of Central Offices	87	88
Number of employees at December 31st ...	642	605
Number of Shareholders.....	2,581	2,639

OFFICERS
and
DEPARTMENT HEADS

DONALD McKELVIE
President

RICHARD A. H. TAYLOR
Vice-President

MURRAY W. COOPER
General Manager

DENIS H. J. LAMOTHE
Secretary

J. CHARLES BURKHOLDER
Treasurer

LESLIE A. MILLER
Assistant Treasurer

ROY B. BARNARD
General B.I.S. -
Personnel Officer

NORMAN E. CURRIE
General Plant Manager

RONALD M. GIBBINS
Chief Engineer

JOHN A. PARKER
Traffic Manager

GLEN A. THOMPSON
Commercial-Marketing
Department Manager

J. AURELE G. BARIL
General Manager
Northern Quebec Telephone Inc.



D. McKELVIE
New Liskeard, Ont.



R. A. H. TAYLOR
New Liskeard, Ont.



R. BUISSON
Rouyn, Que.



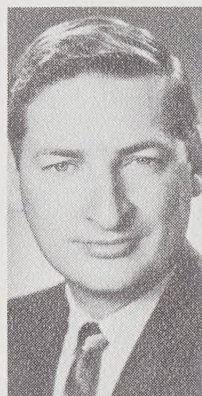
J.A. COOMBS
Montreal, Que.



C. DUHAMEL
Montreal, Que.



R. T. HUTCHINSON
New Liskeard, Ont.



P. KIAR
Ottawa, Ont.

DIRECTORS

RENE BUISSON

Vice-President, Buisson-Lachapelle Inc.

JAMES A. COOMBS

Assistant Vice-President, Bell Canada

CLAUDE DUHAMEL

Vice-President, Bell Canada

ROWAN T. HUTCHINSON

Real Estate Broker

PALLE KIAR

Vice-President, Bell Canada

J. CONRAD LAVIGNE

President, Mid-Canada Television System

DONALD McKELVIE

President, Northern Telephone Limited

W. RALPH RAMSAY

Queen's Counsel

RICHARD A. H. TAYLOR

Chairman, Morissette Diamond

Drilling Limited

Vice-President, Northern Telephone Limited



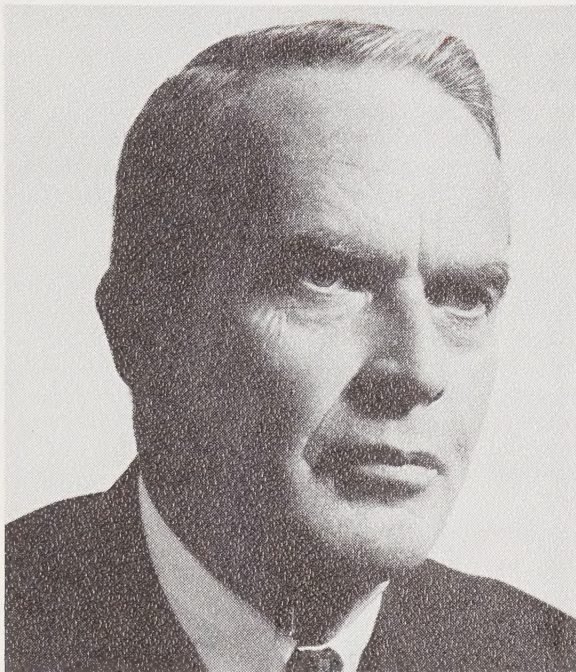
J. C. LAVIGNE
Timmins, Ont.



W. R. RAMSAY
New Liskeard, Ont.

DIRECTORS' REPORT

TO THE SHAREHOLDERS



In 1972 Northern Telephone can again report improvement in the major financial measures of revenues, net income and earnings per share.

Earnings per share increased to \$.63 per common share for 1972 compared to \$.42 in 1971.

The rate of return on total capital achieved was 7.5%, a significant improvement from the 6.4% level attained in 1971.

A significant contribution to the improvement in earnings came from revenues, which, at \$15,407,066, were up 16.9% over 1971. Most of the gain came from higher long distance service revenues.

Economic Activity in the Service Area Expanded

While activity expanded throughout the service area, the growth in long distance revenues was caused by abnormal activity in the James Bay region of Northwestern Quebec. The territory around Matagami is serving as a staging area for the James Bay project and is requiring substantial increases in local as well as long distance service.

A more encouraging expansion of secondary industry in the service area helped contribute to the Company's development.

Timmins became a super-city on January 1, 1973, and Northern Telephone now serves the largest city in North America if measured in land area. Thirty-six percent of the telephones served by Northern Telephone Limited in Ontario are contained in the super-city. This will result in increased expenditures by your Company.

Local and Long Distance Service Improved

The service requirements of Northern Telephone grow as the North grows. Besides substantial increases in facilities for long distance service in 1972, extensive additions to dial equipment and exchange cabling were

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

required. The exchange at Matheson was converted to dial bringing the system's dial development to 99%. Extensive planning and preliminary work were undertaken aimed at providing direct distance dialing (DDD) to the Rouyn-Noranda and La Sarre areas of Quebec in the spring of 1973 and to Kirkland Lake and the Tri-Town areas in the fall of 1973.

Local calling areas are being extended for a number of exchanges, and during 1972, your Company spent \$6,438,564 on construction expenditures.

Additional Capital Required In 1972 and 1973

In August the Company found it necessary to raise \$4,227,300 of new equity capital through a common share issue. This involved the issuance of 676,368 common shares at \$6.25 per share.

Further financing will be necessary in 1973 to meet construction requirements. It is expected that the amount required will be raised through a bond issue.

Northern Quebec Telephone Expanded Through Acquisition

On January 2nd, 1973 negotiations with the Ontario Northland Transportation Commission culminated in this Company's subsidiary, Northern Quebec Telephone Inc., purchasing all of the assets of the Commission located in the Province of Quebec. The transaction is subject to the approval of the Quebec Public Service Board. It will result in Northern Quebec Telephone Inc. owning and operating all local and long distance facilities in its territory.

Rate Action Is Probable

Costs continue to rise and the rate of increase in expenses in 1973 is expected to exceed that of revenues. The Company is facing increased taxation. Earnings from Ontario operations have not benefited from the growth in long distance revenues. These and other factors are expected to result in a need for higher rates in 1973 to ensure an adequate rate of return.

Appointments Made During the Year

Because of other business commitments, Mr. J.A. McCutcheon, Mr. J.L. Montambault and Mr. O. Tropea resigned as Directors during 1972. These three gentlemen gave distinguished service to your Company and the Board wishes to record its appreciation of their valued services to the Company. Mr. P. Kiar of Ottawa, Ontario, Mr. J.A. Coombs of Montreal, Quebec and Mr. C. Duhamel of Montreal, Quebec were appointed in their stead.

The importance of Northern Telephone Limited in the Canadian telecommunication industry was underlined when the Canadian Telecommunications Carriers Association elected your President as their President effective July 1st, 1972. This group represents the major telecommunication carriers across Canada.

New Labour Contracts Signed

Collective bargaining began early in 1972 and resulted in the signing of new 18-month agreements. Labour-Management Committees have been active and have contributed to better understanding on many issues.

Company's Employees Continue Outstanding Effort

The Directors wish to extend their sincere appreciation to all employees for their contributions during the past year. Your Company continues to have a good measure of success in recruiting and developing capable and ambitious young people and whenever practical and possible this is accomplished through its "Hire in the North" policy.

Respectfully submitted on behalf of the Board.

D. McKelvie,
President.

New Liskeard, Ontario.
February 23rd, 1973.

CONSOLIDATED INCOME STATEMENT

	Year 1972	Year 1971
OPERATING REVENUES		
Local service	\$ 8,002,712	\$ 7,299,884
Long distance service	6,692,728	5,288,753
Miscellaneous	770,363	661,566
Less: Uncollectibles	58,737	68,298
	<u>15,407,066</u>	<u>13,181,905</u>
OPERATING EXPENSES		
Depreciation (Note 2)	3,111,481	2,824,414
Maintenance	2,513,451	2,187,296
Traffic (Note 3)	1,050,332	896,552
Marketing and Commercial	878,339	790,329
Accounting (Note 4)	820,861	703,405
Provision for service pensions and other employee benefits	405,387	339,142
Other (Note 5)	575,157	512,748
	<u>9,355,008</u>	<u>8,253,886</u>
Net Operating Revenues	<u>6,052,058</u>	<u>4,928,019</u>
OPERATING TAXES		
Income taxes	2,097,080	1,651,575
Other taxes	465,561	439,122
	<u>2,562,641</u>	<u>2,090,697</u>
Operating Income	<u>3,489,417</u>	<u>2,837,322</u>
OTHER INCOME		
Miscellaneous	62,385	84,256
Less: Amortization of excess of cost of investment in subsidiary companies over book value at acquisition (Note 1)	235,200	235,200
	<u>(172,815)</u>	<u>(150,944)</u>
Total Income Before Interest Charges	<u>3,316,602</u>	<u>2,686,378</u>
INTEREST CHARGES		
Interest on long term debt	824,241	847,467
Other interest	414,484	411,409
Amortization of long term debt expenses	19,874	20,624
	<u>1,258,599</u>	<u>1,279,500</u>
NET INCOME	<u>\$ 2,058,003</u>	<u>\$ 1,406,878</u>
EARNINGS PER COMMON SHARE (After preference dividends and based on average number of shares outstanding)	\$ 0.63	\$ 0.42

CONSOLIDATED

ASSETS

	December 31, 1972	December 31, 1971*
TELEPHONE PROPERTY		
Buildings, plant and equipment - at cost	\$65,078,117	\$59,531,562
Less: Accumulated depreciation	<u>22,427,113</u>	<u>19,770,634</u>
	42,651,004	39,760,928
Land and plant under construction at cost	<u>1,822,286</u>	<u>1,339,570</u>
	<u>44,473,290</u>	<u>41,100,498</u>
CURRENT ASSETS		
Accounts receivable	2,335,636	1,898,870
Materials and supplies - at cost	1,417,405	1,198,884
Prepayments	<u>226,734</u>	<u>233,645</u>
	<u>3,979,775</u>	<u>3,331,399</u>
DEFERRED CHARGES		
Unamortized excess of cost of investments in subsidiary Companies (Note 1)	3,298,003	3,533,203
Unamortized long term debt expenses	<u>186,934</u>	<u>206,808</u>
	<u>3,484,937</u>	<u>3,740,011</u>
	<u>\$51,938,002</u>	<u>\$48,171,908</u>

On behalf of the Board of Directors:

D. McKelvie, Director

R.A.H. Taylor, Director

* RESTATED FOR

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1972	December 31, 1971*
SHAREHOLDERS' EQUITY		
Capital Stock		
Preference (Note 7)	\$ 7,564,000	\$ 7,564,000
Common (Note 7)	11,934,772	10,707,472
Retained earnings	3,140,900	3,143,757
	<u>26,479,672</u>	<u>21,415,229</u>
LONG TERM DEBT (Note 8)	14,953,000	14,176,500
NOTES PAYABLE (Note 9)	4,450,000	7,650,000
CURRENT LIABILITIES		
Bank overdraft	64,458	59,716
Accounts Payable (Note 6)	2,309,214	1,646,886
Advance billing for service	253,586	217,954
Dividends payable	330,579	279,851
Taxes accrued	638,500	-
Interest accrued	166,384	171,032
	<u>3,682,721</u>	<u>2,375,439</u>
DEFERRED CREDITS		
Income taxes (Note 10)	3,247,609	2,554,740
Other	175,000	-
	<u>3,372,609</u>	<u>2,554,740</u>
	<u>\$51,938,002</u>	<u>\$48,171,908</u>

NORTHERN TELEPHONE LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT of RETAINED EARNINGS

	December 31, 1972	December 31, 1971
BALANCE AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	\$3,143,757	\$3,054,466
Adjustment of prior year's income taxes	—	198,183
BALANCE AT BEGINNING OF YEAR AS RESTATED	3,143,757	2,856,283
Add: Net Income	<u>2,058,003</u>	<u>1,406,878</u>
	5,201,760	4,263,161
 Deduct: Dividends - Preference shares	 409,217	 409,217
- Common shares	811,643	710,187
	<u>1,220,860</u>	<u>1,119,404</u>
BALANCE AT END OF YEAR	<u>\$3,980,900</u>	<u>\$3,143,757</u>

CONSOLIDATED STATEMENT of SOURCE and DISPOSITION of FUNDS

SOURCE OF FUNDS	Year 1972	Year 1971*
Operations		
Net income	\$ 2,058,003	\$1,406,878
Items not requiring current funds -		
Depreciation and miscellaneous (net)	3,300,804	2,994,071
Deferred income taxes	692,869	794,096
Deferred income taxes - prior period	—	273,384
	<u>6,051,676</u>	<u>5,468,429</u>
Net proceeds from notes payable	—	2,700,000
Proceeds from issue of common shares	4,227,300	—
Deferred credit - compensation for construction program not completed	125,000	—
Decrease in working capital	658,906	—
	<u>\$11,062,882</u>	<u>\$8,168,429</u>
 DISPOSITION OF FUNDS		
Construction expenditures		
Gross construction expenditures	\$ 6,685,973	\$5,918,364
Deduct charges to construction not requiring funds	247,409	462,724
	<u>6,438,564</u>	<u>5,455,640</u>
Net retirement of notes payable	3,200,000	—
Dividends	1,220,860	1,119,404
Repayment of long term debt	203,458	611,657
Increase in working capital	—	981,728
	<u>\$11,062,882</u>	<u>\$8,168,429</u>

* RESTATED FOR COMPARISON PURPOSES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Principles of consolidation

Consolidated financial statements include the accounts of the two subsidiary companies both of which are wholly owned. The excess of the cost of these investments which exceeded the book value of the Company's equity therein at date of acquisition is being amortized over a period of 20 years commencing in 1967. Prior to 1970 the amounts amortized were charged to consolidated retained earnings. Since 1970 these amounts are charged to consolidated income.

NOTE 2. Depreciation

Depreciation is calculated on the straight line method at a composite rate of approximately 5% in 1971 and 1972.

NOTE 3. Traffic

Expenses, principally wages, incurred in the handling of messages.

NOTE 4. Accounting

Includes computer production expense incurred in the business information department.

NOTE 5. Other

General office salaries and expenses, operating rents and miscellaneous expenses.

NOTE 6. Accounts receivable and accounts payable

At December 31, 1972 accounts receivable included \$176,213 due from the Parent Company and accounts payable include \$119,313 owing to the Parent Company and \$195,787 to its affiliate.

NOTE 7. Capital Stock

Preference Shares

Authorized - with a par value of \$20.00 each
issuable in series, voting

First Preference	500,000 shares	\$10,000,000
Second Preference	250,000 shares	\$5,000,000
Less: Converted	<u>121,800 shares</u>	<u>2,436,000</u>
	<u>128,200 shares</u>	<u>\$2,564,000</u> <u>2,564,000</u>
		<u>\$12,564,000</u>

NOTE 7. (Cont'd)**Outstanding - FIRST PREFERENCE (Redeemable at \$20.40 per share)**

75,000	5 1/2%	cumulative preference shares - Series "A"	\$ 1,500,000
50,000	5 1/2%	cumulative preference shares - Series "B"	1,000,000
100,000	5 1/2%	cumulative preference shares - Series "C"	2,000,000
25,000	5 1/2%	cumulative preference shares - Series "D"	500,000
			<u>\$ 5,000,000</u>

Outstanding - SECOND PREFERENCE (Convertibility expired)

7,853	5%	cumulative preference shares - Series "A" redeemable at \$20.40 per share.	\$ 157,060
120,347	5 1/4%	cumulative preference shares - Series "B" redeemable at \$20.60 to April 1, 1975 and \$20.40 thereafter.	2,406,940
			<u>2,564,000</u>
			<u>\$ 7,564,000</u>

Common shares

Authorized	-	5,000,000 shares of no par value to be issued for a consideration not to exceed \$15,000,000.	
Outstanding	-	3,043,657 shares	<u>\$14,934,772</u>

NOTE 8. Long Term Debt**Northern Telephone Limited
20 year Sinking Fund Debentures**

<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Series</u>	<u>Outstanding</u>
April 1st, 1975	4 %	B	\$ 777,000
May 1st, 1978	5 1/4%	C	1,482,000
January 2nd, 1981	6 %	D	1,744,500
December 1st, 1981	5 1/2%	E	584,500
May 1st, 1983	5 3/4%	F	2,703,000
December 15th, 1984	5 5/8%	G	1,848,000
May 1st, 1987	6 1/2%	H	4,712,000
			<u>\$13,851,000</u>

**Northern Quebec Telephone Inc.
First Mortgage Sinking Fund Bond**

May 1st, 1975	6 %	B	102,000
			<u>\$13,953,000</u>

Total Long Term Debt

NOTE 9. Notes Payable

Promissory note, payable on demand, with the Canadian Imperial Bank of Commerce.

NOTE 10. Deferred Income Tax

Commencing January 1st, 1966, the Company adopted the income tax allocation procedure in respect of capital cost allowance for income tax purposes which are in excess of recorded depreciation. If the Company had adopted this method prior to 1966, the accumulated deferred income taxes at December 31, 1972, would be increased by approximately \$1,115,000.

NOTE 11. Remuneration of Directors

During the period ended December 31, 1972, the aggregate direct remuneration paid or payable by the Company and its subsidiaries to the Directors and Senior Officers of the Company was \$164,200.

NOTE 12. Pension

The latest actuarial valuation of the Plans for Employees' Pensions established an unfunded liability of \$208,038 at December 31, 1970. Based on this valuation, less payments made to December 31, 1972, the unfunded liability is \$124,774 at that date. Payments are charged to operations in the years they are made.

NOTE 13. Commitments

On January 2nd, 1973, Northern Quebec Telephone Inc., a wholly owned subsidiary company, purchased the commercial telecommunication assets of the Ontario Northland Transportation Commission and the Nipissing Central Railway Company in the Province of Quebec for a consideration of \$1,870,000. This purchase is subject to approval by the Quebec Public Service Board.

AUDITORS' REPORT

To the Shareholders of
NORTHERN TELEPHONE LIMITED:

We have examined the consolidated balance sheet of NORTHERN TELEPHONE LIMITED and its subsidiaries as at December 31, 1972, and the consolidated income statement, statement of retained earnings and statement of source and disposition of funds for the year then ended. For Northern Telephone Limited and the subsidiary of which we are auditors our examination included a general review of the accounting procedures and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have relied on the report of the previous auditor of Northern Telephone Limited who reported on the consolidated financial statements for the year ended December 31, 1971.

Timmins, Ontario,
January 31st, 1973.

ROSS, POPE & COMPANY,
CHARTERED ACCOUNTANTS.

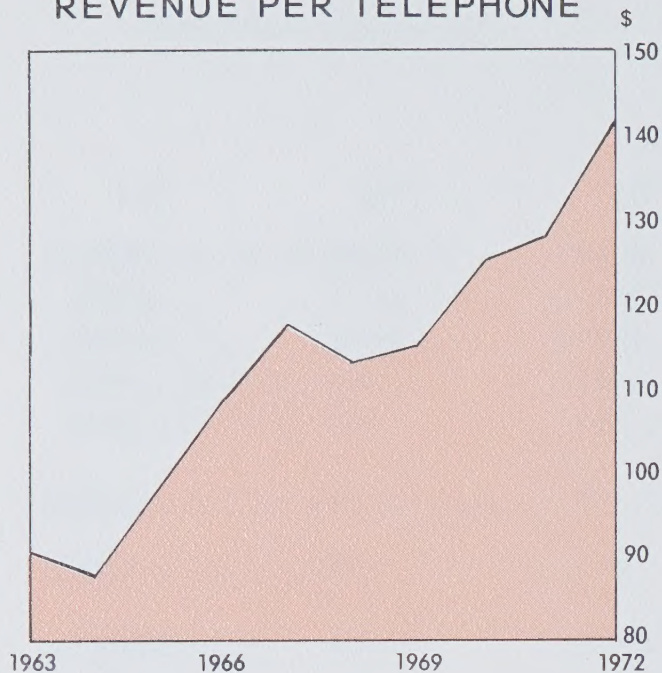
STATISTICS 1963-1972

(Including All Subsidiaries)

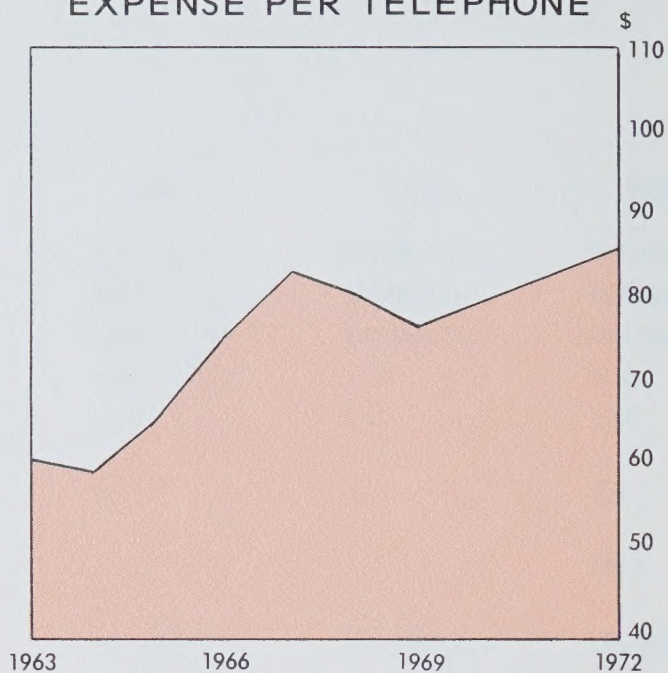
	1972	1971	1970	1969
NUMBER OF TELEPHONES	109,660	102,722	97,194	93,986
Business	33,155	30,968	29,161	28,355
Residence	76,505	71,754	68,033	65,631
Percentage Residence of Total	69.8	69.9	70.0	69.8
Percentage Dial of Total	98.9	98.2	97.1	96.8
NUMBER OF CENTRAL OFFICES	87	88	86	87
MILES OF POLE LINES	4,365	4,373	4,404	4,326
MILES OF WIRE	351,411	325,298	310,181	293,343
LONG DISTANCE CALLS	6,787,577	5,879,955	5,590,884	5,427,557
Company Lines	3,012,323	2,630,629	2,557,759	2,598,626
Connecting Companies' Lines	3,775,254	3,249,326	3,033,125	2,828,931
TOTAL INVESTMENT PLANT & EQUIP.	\$66,900,403	\$60,871,132	\$55,670,079	\$49,207,613
Plant & Equip. Less Dep.	\$44,473,290	\$41,100,498	\$38,404,948	\$34,077,518
OPERATING REVENUES	\$15,407,066	\$13,181,905	\$12,022,529	\$10,688,771
NUMBER OF EMPLOYEES				
Men	347	345	336	352
Women	295	260	289	256
Total Employees	642	605	625	608
TOTAL PAYROLL	\$ 4,944,908	\$ 4,531,140	\$ 4,361,647	\$ 3,684,698
NUMBER OF SHAREHOLDERS				
In Canada	2,493	2,542	2,620	2,650
Elsewhere	88	97	110	112
Total Shareholders	2,581	2,639	2,730	2,762

1968	1967	1966	1965	1964	1963
97,912	94,190	85,705	81,348	77,498	71,681
30,083	28,571	26,836	25,367	24,115	22,039
67,829	65,619	58,869	55,981	53,383	49,642
69.3	69.7	68.5	68.8	68.8	69.3
95.2	94.2	91.8	89.2	84.4	82.8
115	115	108	109	103	91
4,134	4,110	3,914	3,825	3,752	3,259
297,339	282,232	251,304	235,834	215,023	200,648
5,152,324	5,224,231	4,432,847	4,113,808	3,306,631	3,119,205
2,560,812	2,672,179	2,137,615	1,927,245	1,552,586	1,460,572
2,591,512	2,552,052	2,295,232	2,186,563	1,754,045	1,658,633
\$53,551,164	\$48,560,359	\$41,708,885	\$36,062,388	\$32,572,672	\$27,336,419
\$37,416,518	\$34,475,484	\$29,980,665	\$25,849,376	\$23,212,665	\$19,471,665
\$10,807,847	\$10,217,371	\$ 8,868,056	\$ 7,856,925	\$ 6,746,203	\$ 6,364,850
374	416	486	503	393	313
392	430	389	245	357	336
766	846	875	748	750	649
\$ 3,940,799	\$ 4,046,714	N/A	N/A	N/A	N/A
2,730	2,771	2,890	5,228	4,934	4,604
115	93	94	286	300	403
2,845	2,864	2,984	5,514	5,234	5,007

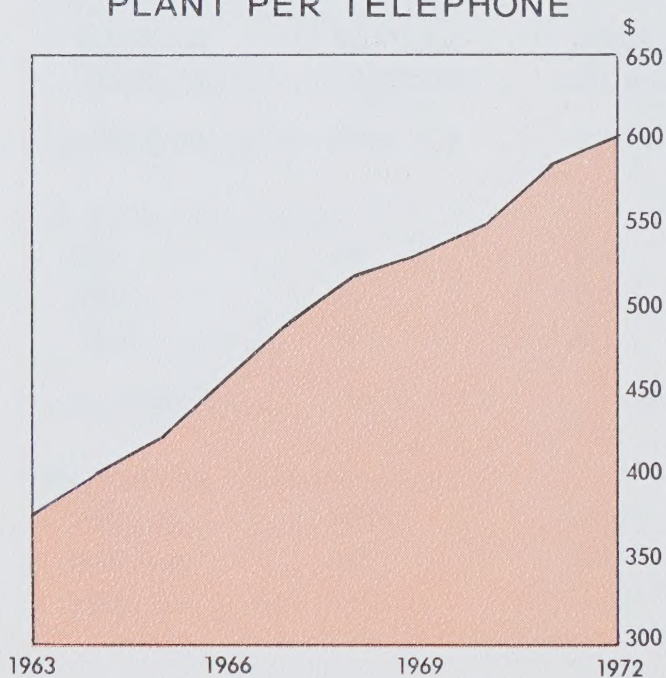
REVENUE PER TELEPHONE



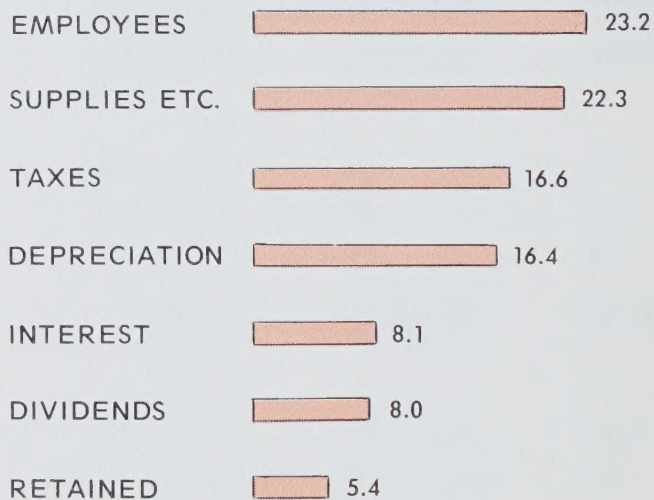
EXPENSE PER TELEPHONE



PLANT PER TELEPHONE



DISPOSITION OF 1972 INCOME DOLLAR



"The Elm"

by Marc-Aurèle Fortin

The cover of this, our 68th Annual Report, depicts a painting by Quebec's best known landscape artist, Marc-Aurèle Fortin. This oil painting was selected from the collection of Mr. René Buisson, a member of our Board of Directors. Unfortunately, "The Elm" was destroyed by fire in 1972. Our cover painting was produced in the North circa 1938 on a dark background, a technique invented by Marc-Aurèle Fortin. This new concept became widely acclaimed and "The Elm" went on exhibition for several years at Canadian embassies in Brazil and Portugal. Our selection of this painting is a tribute to Mr. Buisson who is leaving our Board of Directors after many years of commendable service. We thank him for making a reproduction of this magnificent work of art available.

